Accountants' Reports and Financial Statements September 30, 2010 and 2009

Under provisions of state law, this report is a public document. Acopy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/35/1/



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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center)
New Iberia, Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2011, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LUP

May 11, 2011

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Cash and investments increased by \$3,445,000 or 26.6 percent in 2010 compared to 2009 and increased by \$320,000 or 2.5 percent in 2009 compared to 2008. The increase in 2010 was due to unexpended Series 2009 bond proceeds of \$3,820,000, which will be used for construction.
- The Medical Center's net assets increased in each of the past two years with a \$1,353,000 or 5.9 percent increase in 2010 and a \$927,000 or 4.2 percent increase in 2009.
- The Medical Center reported operating income in 2010 of \$1,460,000 and 2009 of \$1,010,000. The operating income in 2010 increased by \$450,000 or 44.6 percent compared to the operating income reported in 2009. The operating income in 2009 decreased by \$958,000 or 48.7 percent compared to the operating income reported in 2008.
- Net nonoperating revenues decreased in each of the past two years with a \$22,000 decrease in 2010 and a \$5,000 decrease in 2009.

Using This Annual Report

The Medical Center's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any hospital's finances is, "Is the entity as a whole better or worse off as a result of the year's activities?" The balance sheet and statement of revenues, expenses and changes in net assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

These two statements report the Medical Center's net assets and changes in them. The Medical Center's total net assets—the difference between assets and liabilities—is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Medical Center.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Medical Center's Net Assets

The Medical Center's net assets are the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net assets increased by \$1,305,000 (5.9 percent) in 2010 over 2009 and by \$927,000 (4.2 percent) in 2009 over 2008, as shown in Table 1.

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Table 1: Assets, Liabilities and Net Assets

| | 2010 | 2009 | 2008 |
|---|---------------|---------------|---------------|
| Assets | | | |
| Patient accounts receivable, net | \$ 6,359,847 | \$ 6,477,564 | \$ 6,611,346 |
| Other current assets | 11,565,552 | 12,431,496 | 7,670,934 |
| Capital assets, net | 27,665,092 | 26,072,655 | 26,824,566 |
| Other noncurrent assets | 8,222,831 | 3,631,494 | 8,020,202 |
| Total assets | \$ 53,813,322 | \$ 48,613,209 | \$ 49,127,048 |
| Liabilities | | | |
| Long-term debt | \$ 18,068,060 | \$ 14,309,216 | \$ 16,832,421 |
| Other current and noncurrent liabilities | 11,445,357 | 11,356,855 | 10,274,184 |
| Total liabilities | 29,513,417 | 25,666,071 | 27,106,605 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 10,690,410 | 9,240,234 | 8,105,298 |
| Restricted expendable | 3,553,650 | 2,659,380 | 2,512,518 |
| Unrestricted | 10,055,845 | 11,047,524 | 11,402,627 |
| Total net assets | 24,299,905 | 22,947,138 | 22,020,443 |
| Total liabilities and net assets | \$ 53,813,322 | \$_48,613,209 | \$ 49,127,048 |

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Operating Results and Changes in the Medical Center's Net Assets

In 2010, the Medical Center's net assets increased by \$1,305,000 or 5.9 percent, as shown in Table 2. This increase is made up of several different components, including an increase in net patient service revenue of \$3,286,000 in 2010 as compared to 2009, offset by expense increases of \$2,934,000 between 2009 and 2010. The increase in 2010 was \$426,000 (or 45.98 percent) more than the net increase in 2009 of \$927,000. The Medical Center's change in net assets decreased from \$1,896,000 in 2008 to \$927,000 in 2009, a decrease of 4.2 percent.

Table 2: Operating Results and Changes in Net Assets

| | 2010 | 2009 | 2008 | | | |
|---|---------------|---------------|---------------|--|--|--|
| | | | | | | |
| Operating Revenues | | | | | | |
| Net patient service revenue | \$ 55,311,025 | \$ 52,025,311 | \$ 50,043,276 | | | |
| Other operating revenues | 1,873,858 | 1,775,366 | 1,705,775 | | | |
| Total operating revenues | 57,184,883 | 53,800,677 | 51,749,051 | | | |
| Operating Expenses | | | | | | |
| Salaries, wages and employee benefits | 31,405,697 | 28,563,795 | 26,509,942 | | | |
| Supplies, professional fees and | • | | | | | |
| purchased services | 21,582,539 | 21,708,013 | 20,830,902 | | | |
| Depreciation and amortization | 2,687,712 | 2,516,522 | 2,437,364 | | | |
| Other operating expenses | 48,985 | 2,353 | 3,140 | | | |
| Total operating expenses | 55,724,933 | 52,790,683 | 49,781,348 | | | |
| Operating Income | 1,459,950 | 1,009,994 | 1,967,703 | | | |
| Nonoperating Revenues (Expenses) | | | | | | |
| Investment return | 263,577 | 303,950 | 325,619 | | | |
| Interest expense | (663,424) | (772,963) | (887,879) | | | |
| Income from investments in joint ventures | 276,559 | 368,190 | 466,477 | | | |
| Total nonoperating revenues (expenses) | (123,288) | (100,823) | (95,783) | | | |
| Excess of Revenues Over Expenses | 1,336,662 | 909,171 | 1,871,920 | | | |
| Capital Grants and Gifts | 16,105 | 17,524 | 24,341 | | | |
| Increase in Net Assets | \$ 1,352,767 | \$ 926,695 | \$ 1,896,261 | | | |

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Operating Income

The first component of the overall change in the Medical Center's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Medical Center has reported an operating gain. This is consistent with the Medical Center's management's goal of operating the Medical Center in an efficient manner.

The operating income increased in 2010 by \$450,000 or 44.6 percent as compared to 2009. The primary components of the increased operating income are shown on the following page.

- An increase in net patient service revenue of \$3,286,000 or 6.32 percent
- An increase in salaries, wages and benefits for the Medical Center's employees of \$2,842,000 or 10 percent
- A decrease in supplies and other costs of \$125,000 or 0.5 percent

Net patient service revenue increased primarily due to inflationary adjustments from certain payers, an increase in Medicaid disproportionate share funding in 2010, positive cost report settlements from Medicare and Medicaid and increased patient acuity. For example, the Medicare case mix index increased from 1.3075 in 2009 to 1.3328 in 2010, a 1.9 percent increase.

These increases in revenue were offset by decreases in patient activity and Medicaid payment cuts. The Medical Center's admissions and outpatient volumes decreased in 2010, with total admissions in 2010 of 5,253 compared to 5,627 in 2009, a decrease of 6.6 percent. Outpatient activity and revenue continued to be an important part of the Medical Center's operations.

Employee salaries, wages and benefits increased in 2010 over 2009 by \$2,842,000, partly as a result of the Medical Center's efforts to offer competitive wages and benefits in order to compete with other hospitals in obtaining and retaining employees and partly due to increased employee health insurance costs. Also, the Medical Center recruited four physicians who began employment in 2010. Total employee FTEs increased from 477 in 2009 to 496 in 2010, an increase of 4.0 percent.

The rate of health care inflation has a direct effect on the cost of services provided by the Medical Center. This pressure resulted in higher overall operating costs for the Medical Center in 2010.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Interest expense in 2010 decreased compared to 2009, despite an increase in total debt. During 2010, interest expense of approximately \$247,000 related to the Series 2009 A and B Revenue bonds was capitalized as a component of construction in progress.

Management's Discussion and Analysis Years Ended September 30, 2010 and 2009

Capital Grants and Gifts

The Medical Center occasionally receives both capital and operating grants from various state and federal agencies for specific programs. The Medical Center received approximately \$16,000 and \$18,000 in capital grants in 2010 and 2009, respectively.

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2010, 2009 and 2008, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the Medical Center had approximately \$27,665,000 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010, the Medical Center purchased new property and equipment costing \$4,307,000.

Debt

During 2010, the Medical Center issued \$6,600,000 of Series 2009 revenue bonds to fund facility improvements and other construction needs. At September 30, 2010, the Medical Center had \$20,795,000 in revenue bonds and capital lease obligations outstanding. The Medical Center's formal debt issuances and revenue bonds are subject to limitations imposed by state law.

Fiscal Year 2011

Management anticipates that funding constraints at the state level will have a significant impact on the Medical Center's 2011 operating results. Subsequent to September 30, 2010, the Louisiana Medicaid program reduced payments to hospitals for inpatient and outpatient services. The Medical Center was also notified that its Medicaid disproportionate share funding would be reduced by approximately \$930,000 in 2011. To combat these funding losses, management plans to seek new revenue sources, such as Medicaid Upper Payment Limit funding, and closely monitor operating costs.

Contacting the Medical Center's Financial Management

This financial report is designed to provide the Medical Center's patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center Administration by telephoning 337.364.0441.

Balance Sheets September 30, 2010 and 2009

Assets

| · | 2010 | 2009 |
|--|---------------|---------------|
| Current Assets | | |
| Cash and cash equivalents . | \$ 6,509,009 | \$ 7,810,635 |
| Short-term investments | 2,355,056 | 2,303,423 |
| Patient accounts receivable, net of allowance; | | |
| 2010 - \$9,840,000, 2009 - \$10,045,000 | 6,359,847 | 6,477,564 |
| Other receivables | 496,253 | 296,141 |
| Supplies | 1,442,304 | 1,299,122 |
| Prepaid expenses and other | 762,930 | 722,175 |
| Total current assets | 17,925,399 | 18,909,060 |
| Noncurrent Cash and Investments | | |
| Held under bond trust indenture | 7,525,281 | 2,830,287 |
| Capital Assets, Net | 27,665,092 | 26,072,655 |
| Other Assets | r | |
| Investment in joint ventures | 460,877 | 558,137 |
| Bond issue costs, net | 236,673 | 243,070 |
| | 697,550 | 801,207 |
| Total assets | \$ 53,813,322 | \$ 48,613,209 |

Liabilities and Net Assets

| | 2010 | 2009 |
|---|---------------|---------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 2,726,657 | \$ 2,523,205 |
| Accounts payable | 2,946,680 | 2,698,595 |
| Accrued expenses | 5,097,020 | 5,203,510 |
| Estimated amounts due to third-party payers | 675,000 | 931,545 |
| Total current liabilities | 11,445,357 | 11,356,855 |
| | | |
| Long-term Debt | 18,068,060 | 14,309,216 |
| Total liabilities | 29,513,417 | 25,666,071 |
| Net Assets | | , |
| Invested in capital assets, net of related debt | 10,690,410 | 9,240,234 |
| Restricted expendable | 3,553,650 | |
| Unrestricted | 10,055,845 | 11,047,524 |
| Total net assets | 24,299,905 | 22,947,138 |
| Total liabilities and net assets | \$ 53,813,322 | \$ 48,613,209 |

Statements of Revenues, Expenses and Changes in Net Assets Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|---------------|---------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for | | |
| uncollectible accounts; 2010 – \$13,804,161, | | |
| 2009 - \$12,269,143 | \$ 55,311,025 | \$ 52,025,311 |
| Other | 1,873,858 | 1,775,366 |
| Total operating revenues | 57,184,883 | 53,800,677 |
| Operating Expenses | | |
| Salaries and wages | 23,998,795 | 22,446,473 |
| Employee benefits | 7,406,902 | 6,117,322 |
| Purchased services and professional fees | 5,262,752 | 5,891,113 |
| Supplies and other | 15,285,429 | 14,922,150 |
| Insurance | 1,034,358 | 894,750 |
| Depreciation and amortization | 2,687,712 | 2,516,522 |
| Loss on sale of property and equipment | 48,985 | 2,353 |
| Total operating expenses | 55,724,933 | 52,790,683 |
| Operating Income | 1,459,950 | 1,009,994 |
| Nonoperating Revenues (Expenses) | | |
| Investment return | 263,577 | 303,950 |
| Interest expense | (663,424) | (772,963) |
| Income from investments in joint ventures | 276,559 | 368,190 |
| Total nonoperating revenues (expenses) | (123,288) | (100,823) |
| Excess of Revenues Over Expenses Before Capital Grants and Gifts | 1,336,662 | 909,171 |
| Capital Grants and Gifts | 16,105 | 17,524 |
| - · | 10,103 | 17,324 |
| Increase in Net Assets | 1,352,767 | 926,695 |
| Net Assets, Beginning of Year | 22,947,138 | 22,020,443 |
| Net Assets, End of Year | \$ 24,299,905 | \$ 22,947,138 |

Statements of Cash Flows Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|---------------|---------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 55,172,197 | \$ 52,549,565 |
| Payments to suppliers and contractors | (21,704,101) | (21,841,954) |
| Payments to employees | (31,604,699) | (27,944,317) |
| Other receipts, net | 1,673,746 | 1,760,203 |
| Other receipts, not | 1,075,710 | |
| Net cash provided by operating activities | 3,537,143 | 4,523,497 |
| Capital and Related Financing Activities | | |
| Repayment of amounts due Iberia Parish under | | |
| debt agreements | (1,901,616) | (1,695,833) |
| Proceeds from issuance of long-term debt | 6,600,000 | - |
| Payment of bond issue costs | (25,480) | (23,500) |
| Repayments of capital lease obligations | (736,088) | (701,303) |
| Interest paid on debt and capital lease obligations | (570,912) | (753,945) |
| Purchase of capital assets | (4,111,547) | (1,748,275) |
| Proceeds from capital grants and gifts | 16,105 | 17,524 |
| Net cash used in capital and related financing activities | (729,538) | (4,905,332) |
| Investing Activities | · | |
| Interest and dividends on investments | 263,577 | 303,950 |
| Distributions received from joint ventures | 373,819 | 397,522 |
| Purchase of investments | (2,976,419) | (73,331) |
| Net cash provided by (used in) investing activities | (2,339,023) | 628,141 |
| Increase in Cash and Cash Equivalents | 468,582 | 246,306 |
| Cash and Cash Equivalents, Beginning of Year | 10,981,715 | 10,735,409 |
| Cash and Cash Equivalents, End of Year | \$ 11,450,297 | \$ 10,981,715 |

Statements of Cash Flows (continued) Years Ended September 30, 2010 and 2009

| | | 2010 | | 2009 |
|---|----------|------------|----|------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | | | |
| Cash and cash equivalents | \$ | 6,509,009 | \$ | 7,810,635 |
| Cash and cash equivalents in restricted cash and investments | | 4,941,288 | | 3,171,080 |
| Total cash and cash equivalents | | 11,450,297 | | 10,981,715 |
| Reconciliation of Net Operating Revenues (Expenses) to | | | | • |
| Net Cash Provided by Operating Activities | | | | |
| Operating income | \$ | 1,459,950 | \$ | 1,009,994 |
| Depreciation | | 2,665,657 | | 2,497,833 |
| Amortization of bond issue costs | | 22,055 | | 18,689 |
| Loss on disposal of capital assets | | 48,985 | | 2,353 |
| Changes in operating assets and liabilities | | | | |
| Patient accounts receivable, net | | 117,717 | | 133,782 |
| Estimated amounts due from and to third-party payers | | (256,545) | | 423,472 |
| Accounts payable and accrued expenses | | (146,449) | | 514,112 |
| Other assets and liabilities | | (374,227) | _ | (76,738) |
| Net cash provided by operating activities | <u> </u> | 3,537,143 | \$ | 4,523,497 |
| Supplemental Cash Flows Information | - | | | |
| Fixed asset additions in accounts payable | \$ | 195,532 | \$ | - |

Notes to Financial Statements September 30, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) is a 101-bed acute care medical center located in New Iberia, Louisiana. The Medical Center is a component unit of Iberia Parish (the Parish). The Parish appoints a nine-member Board of Commissioners who operate the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Parish area. It also operates a home health agency in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific such as investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Medical Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements September 30, 2010 and 2009

Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2010 and 2009, cash equivalents consisted primarily of certificates of deposit and money market accounts with brokers.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-insured portion of employee health claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Notes to Financial Statements September 30, 2010 and 2009

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

| Land improvements | 15-25 years |
|--------------------------------------|-------------|
| Buildings and leasehold improvements | 20-40 years |
| Equipment | 3-20 years |

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

| | 2010 | 2009 | | |
|--|--------------------------|------|-------------|--|
| Total interest expense incurred on borrowings for project Interest income from investment of proceeds of borrowings | \$ 294,975 | \$ | - | |
| for project | 47,237 | | | |
| | \$ 247,738 | \$ | | |
| Interest capitalized Interest charged to expense | \$ 294,975 663,424 | \$ | 772,963 | |
| | \$ 958,399 | \$ | 772,963 | |

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Notes to Financial Statements September 30, 2010 and 2009

Compensated Absences

The Medical Center's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Medical Center are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Notes to Financial Statements September 30, 2010 and 2009

Income Taxes

As an essential government function of the Parish, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

Investment in Joint Ventures

The Medical Center holds a 20 percent interest in New Iberia Surgery Center, which provides outpatient surgery services to the community. This investment is carried on the equity method of accounting. The Medical Center also holds a 15 percent ownership interest in Acadiana Diagnostic Imaging, LLC, which is a provider of imaging services. This investment is accounted for using the cost method.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

Notes to Financial Statements September 30, 2010 and 2009

Approximately 50 percent of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At September 30, 2010 and 2009, the Medical Center's deposits were either insured or collateralized in accordance with state law.

Investments

The Medical Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At September 30, 2010 and 2009, the Medical Center had the following investments and maturities:

| | | | S | eptemb | er 30, 20 [,] | 10 | | | |
|---|---------|---------------|-------------------|--------|------------------------|---------|------|------|-----------------|
| | | | | | Maturitie | s in Ye | ars | | |
| Туре | <u></u> | Fair Value | Less han 1 | | 1–5 | 6 | i–10 | | More Than 10 |
| FHLB bonds | \$ | 2,509,847 | \$ - | \$ | _ | \$ | - | \$ | 2,509,847 |
| Commercial paper Money market mutual | • | 77,775 | - | | - | | - | | 77,775 |
| funds | | 70,069 | 70,069 | | | | | _ | |
| | \$ | 2,657,691 | \$ 70,069 | \$ | · <u>-</u> | | _ | _\$_ | 2,587,622 |

Notes to Financial Statements September 30, 2010 and 2009

September 30, 2009

| | | | | Maturities | s in Y | ears | | |
|-----------------------------------|------|---------------|----------------|------------|-----------|------|-----|-----------------|
| Туре | | Fair Value | Less 'han 1 | 1–5 | | 6–10 | | More Than 10 |
| FHLB bonds Money market mutual | \$ | 1,962,628 | \$ - | \$ - | \$ | - | \$ | 1,962,628 |
| funds | | 3,634 | 3,634 | | | | _ | |
| | _\$_ | 1,966,262 | \$ 3,634 | \$ | <u>\$</u> | | _\$ | 1,962,628 |

Interest Rate Risk – As a means of limiting exposure to fair value losses arising from rising interest rates, the Parish limits the Medical Center's investments to highly liquid investments or marketable U.S. Treasury and U.S. agency obligations. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Medical Center limits this risk by investment in obligations of the U.S. government or other investments authorized by statute. At September 30, 2010 and 2009, the Medical Center's investments in U.S. agency obligations were comprised of bonds issued by the Federal Home Loan Bank. These bonds were rated AAA by Standards and Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Medical Center's policy with respect to custodial risk is based on Louisiana statutes.

Concentration of Credit Risk – Due to the limitations on the types of investments allowed by the Medical Center's investment policy, the Board of Directors has elected not to limit the amount of assets held by category. At September 30, 2010 and 2009, the Medical Center's investment in Federal Home Loan Bank bonds represented 94% and 99% of total investments, respectively.

Summary of Carrying Values

The carrying values of deposits and investments shown on the previous page are included in the balance sheets as follows:

| | | 2010 | 2009 |
|----------------|---|---------------|---------------|
| Carrying value | | | |
| Deposits | , | \$ 13,731,655 | \$ 10,978,083 |
| Investments | • | 2,657,691 | 1,966,262 |
| | | | |
| | | \$ 16,389,346 | \$ 12,944,345 |

Notes to Financial Statements September 30, 2010 and 2009

Included in the following balance sheets captions:

| | 2010 | 2009 |
|---------------------------------|---------------|---------------|
| Cash and cash equivalents | \$ 6,509,009 | \$ 7,810,635 |
| Short-term investments | 2,355,056 | 2,303,423 |
| Noncurrent cash and investments | 7,525,281 | 2,830,287 |
| | \$ 16,389,346 | \$ 12,944,345 |

Investment Income

Investment income for the years ended September 30, 2010 and 2009, consisted of:

| • | 2010 | 2009 |
|------------------------------|---------|------------|
| Interest and dividend income | \$ 263, | \$ 303,950 |

Note 4: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2010 and 2009, consisted of the following:

| , | 2010 | 2009 |
|---|--------------|--------------|
| Medicare | \$ 1,956,494 | \$ 1,633,241 |
| Medicaid | 342,624 | 150,474 |
| Other third-party payers . | 2,032,041 | 2,436,787 |
| Patients | 11,868,302 | 12,302,117 |
| | 16,199,461 | 16,522,619 |
| Less allowance for uncollectible accounts | 9,839,614 | 10,045,055 |
| | \$ 6,359,847 | \$ 6,477,564 |

Notes to Financial Statements September 30, 2010 and 2009

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2010 and 2009, was as shown below:

| | | | | | | 2010 | | | |
|--------------------------------------|-----------|----------------------|-----------|-----------|----|-------------|----|-------------------|-----------------------|
| | | Beginning Balance | ļ | Additions | Di | sposals | T | ransfers | Ending Balance |
| Land | \$ | 1,448,260 | . \$ | 26,097 | \$ | - | \$ | - | \$ 1,474,357 |
| Land improvements | | 371,935 | | - | | - | | - | 371,935 |
| Buildings and leasehold improvements | | 32,961,502 | | 373,100 | | (782,820) | | 58,925 | 32,610,707 |
| Equipment | | 24,026,167 | | 869,698 | (| 2,406,632) | | 481,828 | 22,971,061 |
| Construction in progress | | 513,712 | | 3,038,184 | | <u> </u> | | (540,7 <u>53)</u> | 3,011,1 <u>43</u> |
| | | 59,321,576 | | 4,307,079 | | (3,189,452) | | _ | 60,439,203 |
| Less accumulated depreciation | | 33,248,921 | | 2,665,657 | (| 3,140,465) | | | 32,774,113 |
| Capital assets, net | <u>\$</u> | 26,072,655 | <u>\$</u> | 1,641,422 | \$ | (48,987) | \$ | - | \$ 27,665,090 |

| | | | | | | 2009 | | | |
|-------------------------------|----|----------------------|----|-----------|-----|------------|-----------|------------|-----------------------|
| | | Beginning Balance | Þ | Additions | Dis | sposals | Tı | ransfers | Ending Balance |
| Land | \$ | 1,436,148 | \$ | 12,112 | \$ | _ | \$ | _ | \$ 1,448,260 |
| Land improvements | | 371,935 | | - | | - | | - | 371,935 |
| Buildings and leasehold | | | | | | | | | |
| improvements | | 29,533,276 | | 104,020 | | (379,216) | | 3,703,422 | 32,961,502 |
| Equipment | | 24,755,423 | | 667,998 | (1 | ,856,149) | | 458,895 | 24,026,167 |
| Construction in progress | | 3,711,884 | | 964,145 | | | (| 4,162,317) | 513,712 |
| | | 59,808,666 | | 1,748,275 | (2 | 2,235,365) | | - | 59,321,576 |
| Less accumulated depreciation | _ | 32,984,100 | | 2,497,833 | | 2,233,012) | | | 33,248,921 |
| Capital assets, net | \$ | 26,824,566 | \$ | (749,558) | \$ | (2,353) | <u>\$</u> | | \$ 26,072,655 |

Notes to Financial Statements September 30, 2010 and 2009

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2010 and 2009, consisted of:

| | 2010 | 2009 |
|---|-----------------|-----------------|
| Payable to suppliers and contractors | \$ 2,946,680 | \$ 2,698,595 |
| Payable to employees (including payroll taxes and benefits) | 4,922,384 | 5,007,184 |
| Other | 174,636 | 196,326 |
| | \$ 8,043,700 | 7,902,105 |

Note 7: Medical Malpractice Claims

The Medical Center has joined together with other providers of health care services to form the Louisiana Hospital Association Medical Malpractice and General Liability Trust Fund, a risk pool (the Pool) currently operating as a common risk management and insurance program for its members. The Medical Center purchases medical malpractice insurance from the Pool under a claims-made policy. The Medical Center pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual stop-loss limit between \$60,000 and \$315,000 per employee. Commercial stop-loss insurance coverage is purchased for claims in excess of these amounts. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Notes to Financial Statements September 30, 2010 and 2009

Activity in the Medical Center's accrued employee health claims liability during 2010 and 2009 is summarized as follows:

| | | 2010 | 2009 |
|---|-----------|-------------|-----------------|
| Balance, beginning of year | \$ | 500,000 | \$ 533,000 |
| Current year claims incurred and changes in estimates for | | | |
| claims incurred in prior years | | 3,209,623 | 2,625,112 |
| Claims and expenses paid | | (3,049,623) | (2,658,112) |
| Balance, end of year | <u>\$</u> | 660,000 | \$ 500,000 |

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended September 30, 2010 and 2009:

| 1 | | | 2010 | | |
|-----------------------------|----------------------|--------------|--------------|-------------------|--------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds payable | \$ 15,266,167 | \$ 6,600,000 | \$ 1,901,616 | \$ 19,964,551 | \$ 2,157,000 |
| Capital lease obligations | 1,566,254 | | 736,088 | 830,166 | 569,657 |
| Total long-term obligations | \$ 16,832,421 | \$ 6,600,000 | \$ 2,637,704 | \$ 20,794,717 | \$ 2,726,657 |
| | | | 2009 | | |
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds payable | \$ 16,962,000 | \$ - | \$ 1,695,833 | \$ 15,266,167 | \$ 1,785,333 |
| Capital lease obligations | 2,267,557 | | 701,303 | 1,566,254 | 737,872 |
| Total long-term obligations | \$ 19,229,557 | <u>\$</u> - | \$ 2,397,136 | \$ 16,832,421 | \$ 2,523,205 |

Notes to Financial Statements September 30, 2010 and 2009

Revenue Bonds Payable

Revenue bonds payable consist of the various series of the Iberia Parish, State of Louisiana Hospital Revenue Bonds, as shown below:

| Bond Series | Original Issue Amount | Interest Rate | Final Maturity | _ | alance at otember 30, 2010 | talance at otember 30, 2009 |
|----------------|-----------------------------|------------------|-------------------|----|----------------------------------|-----------------------------|
| Series 2005 | \$ 350,000 | 5.90% | February 2011 | \$ | 22,884 | \$ 95,333 |
| Series 2005A | \$ 7,900,000 | 4.15% | May 2016 | | 5,835,000 | 6,700,000 |
| Series 2005C | \$ 4,365,000 | 3.90% | May 2016 | | 3,040,000 | 3,460,000 |
| Series 2005D | \$ 4,500,000 | 5.75% | May 2016 | | 911,667 | 1,045,834 |
| Series 2005E | \$ 2,200,000 | 4.05% | May 2017 | | 1,855,000 | 1,935,000 |
| Series 2008 | \$ 2,200,000 | 4.05% | May 2017 | | 1,840,000 | 2,030,000 |
| Series 2009A | \$ 4,400,000 | 5.30% | May 2024 | | 4,305,000 | - |
| Series 2009B | \$ 2,200,000 | 4.60% | May 2024 | | 2,155,000 | |
| | | | · | \$ | 19,964,551 | \$ 15,266,167 |

The bonds are payable in semiannual installments of principal and interest through final maturity. The bonds are secured by the net revenues of the Medical Center, a mortgage on the Medical Center's property and assets restricted under the bond agreement. The bonds are also secured by a pledge of the general revenues of the Parish should the Medical Center's revenues and other security not be sufficient to pay obligations under the bond agreements.

The bond agreements require that certain funds be established to pay debt service on the bonds. Accordingly, these funds are included as restricted expendable assets under bond agreements. The indenture agreement also requires the Medical Center to comply with certain restrictive covenants, including minimum insurance coverage and maintaining a historical debt-service coverage ratio of at least 1.20 to 1.00. The agreements also require the Parish to maintain days cash on hand in excess of 90 days of expense.

Notes to Financial Statements September 30, 2010 and 2009

The debt service requirements as of September 30, 2010, are as follows:

| Year Ending September 30 | Total to , be Paid | Principal · | Interest | | |
|--------------------------|-----------------------|---------------|--------------|--|--|
| 2011 | \$ 3,017,118 | \$ 2,157,000 | \$ 860,118 | | |
| 2012 | 3,007,734 | 2,241,000 | 766,734 | | |
| 2013 | 3,014,177 | 2,345,000 | 669,177 | | |
| 2014 | 3,021,843 | 2,454,167 | 567,676 | | |
| 2015 | 3,025,364 | 2,564,167 | 461,197 | | |
| 2016–2020 | 7,292,197 | 6,138,217 | 1,153,980 | | |
| 2021–2024 | 2,279,750_ | 2,065,000 | 214,750 | | |
| · . | \$ 24,658,183 | \$ 19,964,551 | \$ 4,693,632 | | |

Capital Lease Obligations

The Medical Center has entered into various lease agreements for equipment, which are accounted for as capital leases. Assets under capital leases at September 30, 2010 and 2009, totaled \$3,556,640, net of accumulated depreciation of \$3,206,000 and \$2,773,000, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at rates of 4.30 percent to 6.95 percent, together with the present value of the future minimum lease payments as of September 30, 2010:

| Years Ending September 30, | | |
|--|-------------|---------|
| 2011 | \$ | 602,702 |
| 2012 | | 190,707 |
| 2013 | | 79,461 |
| Total minimum lease payments | | 872,870 |
| Less amount representing interest | | 42,704 |
| Present value of future minimum lease payments | \$ | 830,166 |

Notes to Financial Statements September 30, 2010 and 2009

Note 10: Restricted and Designated Assets

At September 30, 2010 and 2009, restricted expendable assets were available for the following purposes:

| | 2010 | 2009 |
|---|--------------|--------------|
| Debt service under bond agreement | \$ 3,705,246 | \$ 2,830,287 |
| Capital acquisitions under bond agreement | 3,820,035 | |
| Total restricted expendable assets | \$ 7,525,281 | \$ 2,830,287 |

Note 11: Operating Leases

6

Operating leases for medical and office equipment expire in various years through 2013. These leases generally contain renewal options for periods ranging from one to three years and require the Medical Center to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals, plus contingent rentals based on revenues.

Future minimum lease payments at September 30, 2010, were:

| 2011 | | | | \$ | 276,125 |
|------|---|---|---|-----|---------|
| 2012 | • | | | | 194,373 |
| 2013 | | , | : | | 176,664 |
| | | | | | |
| | | | | _\$ | 647,162 |

Minimum future rentals receivable under noncancellable operating leases at September 30, 2010, were:

| 2011 2012 2013 2014 2015–2019 | \$ 539,534 467,234 325,412 262,432 160,995 |
|---|---|
| | \$ 1,755,607 |

At September 30, 2010, the cost of property held for leasing activities totaled \$12,800,000 less accumulated depreciation of \$4,648,000.

Notes to Financial Statements September 30, 2010 and 2009

Note 12: Pension Plan

Plan Description

The Medical Center contributes to the Parochial Employees' Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Louisiana (the State). PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS is comprised of two distinct plans—Plan A and Plan B—with separate assets and benefit provisions. Employees of the Medical Center are members of Plan A. Benefit provisions are established by state law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to PERS at P.O. Box 14619, Baton Rouge, Louisiana, 70898, or by calling 225.928.1361.

Funding Policy

Plan members are required to contribute 9.50 percent of their annual covered salary, and the Medical Center is required to contribute at an actuarially determined rate. The current rate is 15.75 percent of annual covered payroll for 2010 and was 12.25 percent for 2009. The contribution requirements of plan members and the Medical Center are established and may be amended by the PERS Board of Trustees. The Medical Center's contributions to PERS for the years ended September 30, 2010, 2009 and 2008, were \$3,301,000, \$2,488,000 and \$2,401,000, respectively, which equaled the required contributions for each year.

Note 13: Management Company

The Medical Center has a management contract with HealthTech Management Services (HealthTech), previously Brim Healthcare, Inc. In addition to annual management fees, the contract requires payment for the salaries and benefits of personnel provided by HealthTech. Total fees paid to HealthTech during the years ended September 30, 2010 and 2009, were approximately \$633,000 and \$632,000, respectively. The current contract expires September 30, 2012.

At September 30, 2010 and 2009, the Medical Center owed HealthTech \$75,518 and \$76,608, respectively.

Notes to Financial Statements September 30, 2010 and 2009

Note 14: Risks and Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present hospitals with dificult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients are unable to find employment, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Medical Center's ability to meet debt covenants or maintain sufficient liquidity.

Note 15: Significant Estimates and Contingencies

Investigation

During 2007, the Medical Center received a subpoena from the U.S. Department of Justice (DOJ) requesting records related to services performed by a staff physician at the Medical Center. The DOJ has not been in contact with the Medical Center during the last two years. The investigating agency initially informed the Medical Center that it is not a target or subject in the investigation. Management believes the Medical Center's medical records fully support the codes used and billings submitted and does not believe the Medical Center is at risk related to the subpoena request. As a result, no provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Notes to Financial Statements September 30, 2010 and 2009

Self-Insured Employee Health Care

Estimates related to the accrual for self-insured employee health claims are discussed in Note 8.

Note 16: Related-Party Transactions

The Medical Center leases office space to related entities under various operating leases. Amounts received under the lease agreements for the years ended September 30, 2010 and 2009, were \$64,000 and \$63,500, respectively.

The Iberia Parish Council, by a resolution adopted in November 2006, provides the Medical Center use of a building in Jeanerette for the purpose of providing rural health clinic services. The resolution expires October 31, 2012.

The Medical Center purchased diagnostic imaging services from an affiliate during 2010 and 2009, amounting to \$124,400 and \$123,600, respectively.

Note 17: State Budget Activities and Health Care Reform

In response to state budget constraints, subsequent to September 30, 2010, the state of Louisiana implemented various changes in reimbursement rates that will reduce future payments to the Medical Center for services after January 1, 2011. These changes include reductions in Medicaid inpatient and outpatient rates and changes in the Medicaid disproportionate share (DSH) program that management anticipates will reduce DSH funding to the Medical Center by approximately \$930,000.

During 2010, Congress passed legislation that will significantly reform the United States health care system. The legislation will require certain changes through 2014 to private and public health care insurance plans, including further changes to the Louisiana Medicaid program. While the impact of these regulatory changes cannot currently be determined, it is reasonably possible that these changes will negatively impact the Medical Center's net patient service revenues.

Schedule of Insurance Policies September 30, 2010 and 2009

| Covered Risks | Insurer | Coverage Description | Coverage Amount | Expiration Date |
|-----------------------------|---------------------|-------------------------------|------------------------|------------------------|
| Malpractice and | Louisiana Hospital | Professional Liability | \$ 1,500,000 | 11/1/2010 |
| General Liability | Association | Umbrella General Liability | 2,500,000 2,000,000 | 11/1/2010 11/1/2010 |
| Louisiana Patient | Louisiana Hospital | LA Patient | | |
| Compensation | Association | Compensation | 1,000,000 | 11/1/2010 |
| Workers' | Louisiana Hospital | Coverage A | Statutory | 1/1/2011 |
| Compensation | Association | Coverage B | 1,000,000 | 1/1/2011 |
| Directors, Officers and | | | | |
| Employment Practices | Regions/ Traveler's | Liability . | 3,000,000 | 1/1/2011 |
| Property | Regions/CNA | Property Damage | 101,000,000 | 7/1/2011 |
| Auto | Fireman's Fund | Liability | 1,000,000 | 12/1/2010 |
| | • | Uninsured Motorists | 1,000,000 | 12/1/2010 |

Schedule of Board Members September 30, 2010 and 2009

| Name | Office | Residence |
|-------------------------------|---------------|-----------------------|
| Mr. Jules A. "Tony" Schwing | Chairman | New Iberia, Louisiana |
| Mr. Robert "Chris" Jordan | Vice-Chairman | New Iberia, Louisiana |
| Mr. David W. Groner | Member | New Iberia, Louisiana |
| Mrs. Rachel Gonsoulin | Member | New Iberia, Louisiana |
| Larry Nelson, M.D. | Member | New Iberia, Louisiana |
| Ms. Glenda Neuville | Member | New Iberia, Louisiana |
| Mr. Jesse Dupuy | Member | New Iberia, Louisiana |
| Mr. Mark Romero | Member | New Iberia, Louisiana |
| James B. Falterman, Jr., M.D. | Member | New Iberia, Louisiana |



Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center)
New Iberia, Louisiana

We have audited the financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) as of and for the year ended September 30, 2010, and have issued our report thereon dated May 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.



However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as items 10-1, 10-2 and 10-3 that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 10-4.

We also noted certain matters that we reported to the Medical Center's management in a separate letter dated February 23, 2011.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management, the Louisiana Legislative Auditor and others within the Medical Center and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

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BKDLLP

May 11, 2011

Schedule of Findings and Responses Year Ended September 30, 2010

Findings Required to be Reported by Government Auditing Standards

| Reference Number | Finding |
|---------------------|--|
| 10-1 | Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. |
| | Condition – Access to certain computer system modules and certain functions within those system modules were not limited to personnel that need access to complete their job requirements. |
| • | Context – Information Technology personnel have system access to engage in business transactions and other users have access to perform all functions within transaction cycles. |
| | Effect – System changes or improper recording of transactions could occur. |
| | Cause – Due to limitations in the Medical Center's computer system, access to key transaction modules are assigned with a single switch, which then assigns all rights accompanying that module to the user profile. |
| | Recommendation – Management should evaluate the control structure to limit functions in computer system modules to only those personnel that need access to complete their job requirements. |
| | Views of Responsible Officials and Planned Corrective Actions |

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and implement any changes deemed appropriate within the next year.

Schedule of Findings and Responses Year Ended September 30, 2010

| Refere | nce |
|--------|-----|
| Numi | ber |

Finding

10-2 Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Lack of segregation of duties in the revenue transaction cycle.

Context – Some positions within the revenue transaction cycle are able to both authorize and record adjustments to patient accounts. Some personnel also have access to patient payments and have the ability to record adjustments on patient accounts and/or prepare cash receipts listings.

Effect – Unauthorized adjustments to patient accounts or incorrect postings or deposits on a patient account could occur.

Cause – Lack of segregation of duties in the Medical Center's internal control over financial reporting.

Recommendation – Management currently requires all patient account adjustments over a specific threshold to be reviewed by the Chief Financial Officer. Management should consider requiring random adjustments under the mandatory review threshold be selected and reviewed. Additionally, the ability for personnel to both access payments and record adjustments should be eliminated where possible.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will consider the recommendation and implement any changes deemed appropriate within the next year.

Schedule of Findings and Responses Year Ended September 30, 2010

| Reference Number | Finding |
|---------------------|---|
| 10-3 | Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. |
| | Condition – Lack of segregation of duties in the payroll transaction cycle. |
| | Context – Due to vacant staff positions, one individual within the payroll transaction cycle had access to all payroll-related activities, such as adding employees, changing pay rates and preparing payroll disbursements, during parts of 2010. |
| | Effect – Unauthorized changes to employee pay, payroll disbursements or other activities could occur. |
| | Cause – Lack of segregation of duties in the Medical Center's internal control over financial reporting. |
| | Recommendation – During periods when these duties must be assigned to one individual, it is important that senior management closely review all transactions for appropriateness. |
| | Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management plans to revert to a more segregated control structure once the vacant staff positions are filled. In the interim, management has implemented mitigating controls that |

include department director review of employee additions each pay period and chief financial officer review each quarter.

Summary Schedule of Prior Audit Findings Year Ended September 30, 2010

| Reference Number | Finding |
|---------------------|---|
| | |
| 10-4 | Criteria or Specific Requirement – The annual audited financial statements of the Medical Center are required to be completed and submitted within six months of the Medical Center's year-end or March 31, 2011. |
| · | Condition – The audited financial statements were completed in February 2011 but not submitted by March 31, 2011. |
| | Effect – Noncompliance with state regulations regarding financial reporting. |
| | Cause –The Medical Center was not aware of the filing requirement. |
| | Recommendation – The Medical Center should develop internal controls to ensure the financial statements are submitted timely in the future. |
| | Views of Responsible Officials and Planned Corrective Actions – Management concurs with finding and recommendation. Management will monitor the filing date and ensure that audit is submitted timely. |